How to approach question 2 in the exam:

STEP 1

1. Read the "REQUIRED" section first.

   Ensure you are clear on what is required of you. Please note that marks will not be awarded if you do not complete what is required.

   1.1 Which company are we dealing with?? Whose books?
   1.2 What is the year end? Very important for intragroup transactions etc
   1.3 What are we required to prepare? Journals or financial statements? Which statements?

2. Look over the given financial statements / trial balance and identify the following:
   2.1 Profit or loss items
   2.2 Investments in which companies
   2.3 Mark-to-market reserve - were there any fair value adjustments, when did the adjustments take place.

3. Determine dates

   Of trial balance or financial statements

   Of the retained earnings given i.e. Is it the opening balance or the closing balance??

   Of dividends paid (This would be important if a change of ownership had taken place during the year)

4. Read the additional information
   4.1. Acquisition dates: did the acquisition take place in the current year or in previous years;
   4.2. Control: what type of control (i.e. full control, significant influence or joint control) was acquired. Once you have identified this you can classify each company as a subsidiary, associate or joint venture; etc…
   4.3. Skim read each point to see what it deals with:
      4.3.1 Identify the information that affects the acquisition of the entity,
      4.3.2 Identify all the intragroup transactions, noting the entities involved and the entity which has made the profit
      4.3.3 Identify the NCI method etc
      4.3.4 Note whether there is any tax implications i.e. has a tax rate been given. Use the tax rate that is given in the question.
      4.3.5 Should there be goodwill, has it been impaired.

STEP 2

Determine the group structure (Prepare a schematic illustration of the group i.e. DRAW IT), and a time-line.

STEP 3

Start by drafting the consolidated SFP, consolidated SCI and consolidated SOCIE.

You can score easy marks by including figures that are already given to you in the question and where no calculations are necessary.

STEP 4

Calculate the effect of the intragroup items:

STEP 5

Prepare the analysis or journals and any other calculations necessary.

Open Rubric

Practice on the following question:

QUESTION 2 (42 marks)(50 minutes)

The following are extracts from the trial balances of Cotton Ltd, Humbug Ltd and Pansy Ltd as at 31 December 2012:

	Cotton Ltd R	Humbug Ltd R	Pansy Ltd R
Debits			
Property, plant and equipment	1 110 880	507 995	326 600
Investment in Humbug Ltd at fair value	200 000	-	-
Investment in Pansy Ltd at fair value	50 000	-	-
Investment in Poodle Ltd at fair value	60 000	-	-
Investment in Gizmo Ltd at fair value	-	50 000	-
Inventory	269 360	123 500	56 200
Trade and other receivables	293 840	160 900	141 800
Cost of sales	490 000	325 000	275 000
Other expenses	266 000	196 000	60 000
Income tax expense	79 240	89 320	85 960
Cash and cash equivalents	211 000	52 000	21 000
Dividends paid - 31 December 2012	34 600	22 400	11 800
	3 064 920	1 527 115	978 360
Credits			
Share capital - 200 000 ordinary shares	200 000	-	-
Share capital - 150 000 ordinary shares	-	275 000	-
Share capital - 50 000 ordinary shares	-	-	25 000
Retained earnings - 1 January 2012	1 699 920	336 115	279 360
Trade and other payables	95 000	66 000	32 000
Other comprehensive income:			
- mark-to-market reserve	22 792	8 140	-
- taxation on mark-to-market reserve	5 208	1 860	-
Revenue	852 000	655 000	522 000
Other income	190 000	185 000	120 000
	3 064 920	1 527 115	978 360

Additional information

Cotton Ltd:

1. The mark-to-market reserve in the accounting records of Cotton Ltd relates to the fair value adjustments during the current year on the equity investments held.

2. The investment in Poodle Ltd is a simple investment which was acquired for R40 000 during 2012.

QUESTION 2 (continued)

Humbug Ltd:

3. On 1 March 2011 Cotton Ltd obtained control of Humbug Ltd, by acquiring 60% of the issued share capital in Humbug Ltd at that date. The consideration paid consisted of a cash amount of R192 000. The equity reserves of Humbug Ltd at 1 March 2011 were as follows:

	R Dr/(Cr)
Share capital (100 000 ordinary shares)	(200 000)
Retained earnings	(120 000)

   At the acquisition date there were no unidentified assets or liabilities, and the fair value of all the assets and liabilities were equal to the carrying amounts thereof.

4. On 30 May 2012 Humbug Ltd had a rights issue of 1 share for every 2 shares held at a price of R1,50 per share. Cotton Ltd did not take up any of the rights issued, therefore their rights were renounced and the non-controlling interests took up the full rights issue. Cotton Ltd lost control over Humbug Ltd and exercised significant influence over the financial and operating policies of Humbug Ltd since 30 May 2012.

5. The following information relating to the investment in Humbug Ltd (taking the effect of the rights issue into account) was available on 30 May 2012:

	R Dr/(Cr)
Information relating to the interest held by Cotton Ltd:	
Fair value of the remaining investment in Humbug Ltd	260 000
Balances from the trial balance of Humbug Ltd:	
Inventory	35 000
Trade and other receivables	16 000
Trade and other payables	(5 500)

6. The mark-to-market reserve in the records of Humbug Ltd relates to the investment in Gizmo Ltd which was acquired for R40 000 on 1 September 2012 and fair valued in terms of IFRS 9 (*Financial Instruments*) on 31 December 2012.

7. The profits of Humbug Ltd were earned evenly throughout the year.

Pansy Ltd:

8. On 1 January 2011, Cotton Ltd purchased 10 000 ordinary shares in Pansy Ltd for R50 000 when the retained earnings of Pansy Ltd were R175 000. Since this date Cotton Ltd exercised joint control over the financial and operating policy decisions of Pansy Ltd in terms of a contractual agreement. The arrangement was classified as a joint venture in accordance with IFRS 11(*Joint Arrangements*).

QUESTION 2 (continued)

9. On 1 April 2012, Pansy Ltd sold equipment to Cotton Ltd for a cash amount of R120 000. The carrying amount of the equipment on the date of sale was R90 000 and the remaining useful life was 6 years. The entity's policy is to provide for depreciation over the expected useful life of the equipment, using the straight-line method which is in line with the allowance received from the South African Revenue Service.

Cotton Ltd Group:

10. The following is an extract from the consolidated statement of financial position of the Cotton Ltd Group as at 31 December 2011:

	R Dr/(Cr)
Inventory	352 000
Trade and other receivables	175 000
Trade and other payables	(104 500)

11. Depreciation of R155 000 is included in "other expenses" and investment income of R6 700 received in cash is included in "other income" in the statement of profit or loss and other comprehensive income of Cotton Ltd for the current year. Except for the given information, no other non-cash items existed which could have an influence on the consolidated statement of cash flows.

12. The Cotton Ltd group discloses dividends paid and investment income received as operating activities in the consolidated statement of cash flows.

13. The group measures its investments in equity instruments at fair value through other comprehensive income. The fair value of all equity instruments is equal to the cost thereof, unless otherwise stated.

14. The Cotton Ltd group measures non-controlling interests in an acquiree at their proportional share of the acquiree's identifiable net assets (partial goodwill method) at acquisition date.

15. The Cotton Ltd group accounts for investments in associates and joint ventures in accordance with the equity method.

16. The SA normal tax rate is 28% and capital gains tax is calculated at 66,6% thereof (effective capital gains tax rate of 18,6%). You may assume that the tax rate has remained unchanged since 1 January 2011.

17. Each share carries one vote. The issued share capital of all the entities in the group remained unchanged since 1 January 2011, except for the issued shares in Humbug Ltd as a result of the rights issue (see point 4).

QUESTION 2 (continued)

REQUIRED:

(a) Prepare the consolidated statement of profit or loss and other comprehensive income of the Cotton Ltd Group as at 31 December 2012.

(b) Prepare **only** the **cash flows from operating activities section** of the consolidated statement of cash flows of the Cotton Ltd Group for the year ended 31 December 2012

Your answer must comply with the requirements of International Financial Reporting Standards.

Notes to the consolidated annual financial statements and comparative figures are not required.

Show all calculations to the nearest Rand.

Comments:

You are required to prepare the following sections of the annual consolidated financial statements for the year ended 31 December 2012. The following should be prepared:

- the Consolidated SP/LOCI;
- the cash flows from operating activities section of the Consolidated statement of cash flows.

The required section specifically states the cash flows from financing and investing operations of the consolidated SCF are not required and the consolidated SFP are not required.

The required section also specifically states that notes and comparative figures are not required. It is important to make sure that you read what is not required as it will result in a waste of time if you prepare unnecessary workings. TIME MANAGEMENT IS VERY IMPORTANT IN ANY QUESTION.

STEP 2

Determine the group structure (Prepare a schematic illustration of the group i.e. DRAW IT), and a time-line.

In this question your group structure would look as follows:

This is a HORIZONTAL GROUP

QUESTION 2 (continued)

In this question the time line would look as follows:

At acquisition - sub | BOY 1Jan 2012 | YE

1 January 2011
20% JO

1 March 2011
60% Sub

30 May 2012
60% Sub to
Ass 40%

31 Dec 2012
Div. paid –
31 Dec 2012

From the above illustration we can see we have a complex group with the following:

- a parent (Cotton Ltd) - 100% of assets, liabilities, income and expenses will be included in the consolidated annual financial statements (REMEMBER to eliminate any intragroup transactions);

- a subsidiary (Humbug Ltd) - 100% of assets, liabilities, income and expenses will be included in the consolidated annual financial statements for 5 of the 12 months (REMEMBER to eliminate any intragroup transactions);

- an associate (Humbug Ltd) - In the consolidated SCI only the "share of profit of associate" is disclosed for 7 of the 12 months. (REMEMBER to eliminate 40% intragroup transactions)

- a joint venture (Pansy Ltd) - the consolidated SCI only the "share of profit of joint venture" is disclosed (REMEMBER to eliminate 20% of any intragroup transactions);

- There are subsidiaries thus there will be NCI in the consolidated SFP and consolidated SCI.

STEP 3

Start by drafting the asset section of the consolidated SFP,

You can score easy marks by including figures that are already given to you in the question and where no calculations are necessary.

As per this question:

PART A

COTTON LTD GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 DECEMBER 2012

	R
Revenue (852 000 + 272 917(655 000 x $^{5}/_{12}$))	1 124 917
Cost of sales (490 000 + 135 417(325 000 x $^{5}/_{12}$)	(625 417)
Gross profit	499 500
Other income (190 000 + 77 083(185 000 x $^{5}/_{12}$))	xxx
Other expenses (266 000 + 81 667(196 000 x $^{5}/_{12}$))	xxx
Share in profit from joint venture, Pansy Ltd (221 040(522 000 – 275 000 + 120 000 – 60 000 – 85 960) x 20% = 44 208)	xxx
Share in profit from associate, Humbug Ltd(C6)	xxx
Profit before tax	xxx
Income tax expense (79 240 + 37 217(89 320 x $^{5}/_{12}$))	(116 457)
PROFIT FOR THE YEAR	xxx

Other comprehensive income for the year, net of tax	
Items that will not be reclassified to profit or loss	xxx
Fair value adjustment on equity instruments Fair value adjustment on equity instruments (22 792)	xxx
Share in other comprehensive income of associate, Humbug Ltd	xxx
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**xxx**

	R
Profit for the year attributable to:	
Owners' of the parent	
Non-controlling interests	xxx
	xxx
	xxx
Total comprehensive income for the year attributable to:	
Owners' of the parent)	xxx
Non-controlling interests	xxx
	xxx

As per this question:

PART B

If Part A is completed, then Part B can be completed by carrying over the amounts used in the consolidated SP/LOCI.

COTTON LTD GROUP

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	R
Cash flows from operating activities	(155 581)
Cash receipts from customers (C1)	xxx
Cash paid to suppliers and employees (C2)	(xxx)
Net cash from operating activities	xxx
Investment income received (6 700(given))	xxx
Taxes paid (SP/LOCI)	(xxx)
Dividend paid (Given)	(34 600)

Calculations

C1 Cash receipts from customers	**R**
Revenue (SP/LOCI)	xxx
Net outflow in trade receivables:	(134 840)
- Opening balance	175 000
- Subsidiary acquired	(16 000)
- Closing balance	(293 840)
	990 077

C2 Cash paid to suppliers and employees

	R	
Cost of sales (SP/LOCI)	(xxx)	
Net inflow in inventories	47 640	
- Opening balance		352 000
- Subsidiary sold		(35 000)
- Closing balance		(269 360)
Decrease in trade and other payables	(4 000)	
- Opening balance		(104 500)
- Subsidiary sold		5 500
- Closing balance		95 000
Other operating expenses - per statement of profit or loss and other comprehensive income (SP/LOCI)	(xxx)	
Non-cash item: depreciation (given)	155 000	
Non-cash item: loss on rights issue (SP/LOCI)	(xxx)	
	(xxx)	

From your illustration you have already identified what group structure you have. You can now prepare the consolidated SP/LOCI by including certain line items without including the amount (e.g.: "share in profit of associate/joint venture"). You can include the amount at a later stage when you have prepared the calculation. Remember to include the amount calculated in the consolidated SP/LOCI else no marks will be awarded.

Marks are allocated to specific line items. It is thus clear that easy marks can be obtained before preparing the analysis or journals.

In this question you have:

- a subsidiary for $^{5}/_{12}$ months: thus you will have a line item "non-controlling interests" and "gain or loss on disposal of interest" in the consolidated SP/LOCI. Once you have prepared the calculation you can go back and fill in the amount calculated. If you have a "gain on bargain purchase", this amount will be included in the "other income" figure in the consolidated SCI, with the effect of increasing the "profit for the period".

- a joint venture: thus you will have a line item "share in profit of joint venture" in the consolidated SP/LOCI which you need to calculated and include in the consolidated S/LOCI.

- an associate for $^{7}/_{12}$ months: thus you will have a line item "share of profit of associate" in the consolidated SP/LOCI. Once you have prepared the calculation you can go back and fill the amount calculated in.

STEP 4

Calculate the effect of the intragroup items:

4.1 Seller makes the profit and therefore intragroup unrealised profits reversed against the amounts of the seller,
4.2 Different types of intragroup transactions in group statements (Interest received and paid, dividends received and paid etc).

- Equipment sold:
  Pansy Ltd sold equipment to Cotton Ltd. R30 000(R120 000 – R90 000) is the intragroup unrealised profit and 20% thereof must be eliminated. i.e.: Thus unrealised profit of R6 000(R30 000 x 20%) is eliminated against "share in profit of joint venture" because Pansy Ltd is a joint venture of Cotton Ltd. "Investment in joint venture" will not be affected by the unrealised profit as the PPE of the parent will be adjusted as the joint venture sold PPE to the parent. The tax effect amounts to R10 850(R38 750 x 28%) deferred tax asset.

	R
(C1) Unrealised profit (30 000(120 000 – 90 000) x 20%)	6 000
(C2) Tax effect (6 000 x 28%)	1 680

The unrealized profit will realize through the use of the equipment, thus the depreciation written off to be realized amounts to R750 (R6 000/6 x $^{9}/_{12}$). Thus the realised profit of R750 is recognised against "share in profit of joint venture" because the joint venture made the unrealised profit. The tax effect amounts to R210 (R750 x 28%).

	R
(C3) Depreciation (6 000/ 6years x $^{9}/_{12}$)	750
(C4) Tax effect (750 x 28%)	210

- Dividends received

  (C5) Cotton Ltd reveived a dividend of R8 960(R22 400 x 40%) from Humbug Ltd and received a dividend of R2 360(R11 800 x 20%) from Pansy Ltd that must be eliminated against the "other income" in the consolidated SP/LOCI.

Insert the effect of the intragroup transaction into the consolidated SP/LOCI and SCF.

As per this question:

PART A

COTTON LTD GROUP

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 DECEMBER 2012

	R
Revenue (852 000 + 272 917(655 000 x $^{5}/_{12}$))	1 124 917
Cost of sales (490 000 + 135 417(325 000 x $^{5}/_{12}$)	(625 417)
Gross profit	499 500
Other income (190 000 + 77 083(185 000 x $^{5}/_{12}$) – 8 960(22 400 x 40%)(div) – 2 360 (11 800 x 20%)(div))	255 763
Other expenses (266 000 + 81 667(196 000 x $^{5}/_{12}$)	(466 756)
Share in profit from joint venture, Pansy Ltd (221 040(522 000 – 275 000 + 120 000 – 60 000 – 85 960) x 20% = 44 208 – 6 000(C1) + 1 680(C2) + 750 (C3) – 210 (C4))	40 428
Share in profit from associate, Humbug Ltd (655 000 – 325 000 + 185 000 – 196 000 – 89 320 = (229 680 x $^{7}/_{12}$) x 40%)(C6)	53 592
Profit before tax	382 528
Income tax expense (79 240 + 37 217(89 320 x $^{5}/_{12}$))	(116 457)
PROFIT FOR THE YEAR	266 071
Other comprehensive income for the year, net of tax	
Items that will not be reclassified to profit or loss	19 536
Fair value adjustment on equity instruments Fair value adjustment on equity instruments (22 792 – 6 512((200 000 – 192 000) x 81,4%)	16 280
Share in other comprehensive income of associate, Humbug Ltd (C6) (8 140 x 40%)	3 256
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	285 607

	R
Profit for the year attributable to:	
Owners' of the parent (balancing)	227 791
Non-controlling interests (95 700(655 000 – 325 000 + 185 000 – 196 000 – 89320 = 229 680 x $^{5}/_{12}$) x 40%)(C6)	38 280
	266 071
Total comprehensive income for the year attributable to:	
Owners' of the parent (balancing)	247 327
Non-controlling interests	38 280
	285 607

PART B
COTTON LTD GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	R
Cash flows from operating activities	(155 581)
Cash receipts from customers (C1)	990 077
Cash paid to suppliers and employees (C2)	(1 012 189)
Net cash from operating activities	(22 545)
Investment income received (6 700(given) + 8 960(SP/LOCI) + 2 360(SP/LOCI))	18 020
Taxes paid (SP/LOCI)	(116 457)
Dividend paid (Given)	(34 600)

Calculations

C1 Cash receipts from customers

	R
Revenue (SP/LOCI)	1 124 917
Net outflow in trade receivables:	(134 840)
- Opening balance (given)	175 000
- Subsidiary acquired (given)	(16 000)
- Closing balance (given)	(293 840)
	990 077

C2 Cash paid to suppliers and employees

	R
Cost of sales (SP/LOCI)	(625 417)
Net inflow in inventories	47 640
- Opening balance (given)	352 000
- Subsidiary sold (given)	(35 000)
- Closing balance (given)	(269 360)
Decrease in trade and other payables	(4 000)
- Opening balance (given)	(104 500)
- Subsidiary sold (given)	5 500
- Closing balance (given)	95 000
Other operating expenses - per statement of profit or loss and other comprehensive income (SP/LOCI)	(466 756)
Non-cash item: depreciation (given)	155 000
Non-cash item: loss on rights issue (SP/LOCI)	(119 089)
	(1 012 621)

STEP 5

Prepare the analysis or journals and any other calculations necessary. Remember that the analysis or journals are mainly prepared to calculate:

- the goodwill or gain on bargain purchase at acquisition; and
- the NCI figure in the consolidated SP/LOCI and the gain or loss on rights issue in the consolidated SP/LOCI.

Prepare the analysis (or journals) in sections and slot the results of each section into the consolidated SP/LOCI as you go.

Take into account the group structure as this will influence which analysis will be prepared first.

SUGGESTED SOLUTION	1

Please note:
All descriptions and amounts shown in brackets form part of calculations and are not disclosure requirements.

PART A

COTTON LTD GROUP
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDING 31 DECEMBER 2012

	R
Revenue (852 000 + 272 917(655 000 x $^5/_{12}$))	1 124 917
Cost of sales (490 000 + 135 417(325 000 x $^5/_{12}$)	(625 417)
Gross profit	499 500
Other income (190 000 + 77 083(185 000 x $^5/_{12}$) – 8 960(22 400 x 40%)(div) – 2 360 (11 800 x 20%)(div))	255 763
Other expenses (266 000 + 81 667(196 000 x $^5/_{12}$) + 119 089(C6) or 96 363 (C6) + 22 726 (C6))	(466 756)
Share in profit from joint venture, Pansy Ltd (221 040(522 000 – 275 000 + 120 000 – 60 000 – 85 960) x 20% = 44 208 – 6 000(C1) + 1 680(C2) + 750 (C3) – 210 (C4))	40 428
Share in profit from associate, Humbug Ltd (655 000 – 325 000 + 185 000 – 196 000 – 89 320 = (229 680 x $^7/_{12}$) x 40%)(C6)	53 592
Profit before tax	382 528
Income tax expense (79 240 + 37 217(89 320 x $^5/_{12}$))	(116 457)
PROFIT FOR THE YEAR	266 071
Other comprehensive income for the year, net of tax	
Items that will not be reclassified to profit or loss	19 536
Fair value adjustment on equity instruments Fair value adjustment on equity instruments (22 792 – 6 512((200 000 – 192 000) x 81,4%)	16 280
Share in other comprehensive income of associate, Humbug Ltd (C6)(8 140 x 40%)	3 256
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	285 607

	R
Profit for the year attributable to:	
Owners' of the parent	227 791
Non-controlling interests (95 700(655 000 – 325 000 + 185 000 – 196 000 – 89320 = 229 680 x $^5/_{12}$) x 40%)(C6)	38 280
	266 071
Total comprehensive income for the year attributable to:	
Owners' of the parent)	247 327
Non-controlling interests	38 280
	285 607

SUGGESTED SOLUTION | 1 | (continued)

Calculations

C6 Analysis of owners' equity of Humbug Ltd

	100%	60% - 40% Cotton Ltd		40%	40%
	Total R	**At R**	**Since R**	**NCI R**	**CA R**
At acquisition: 28 February 2012					
Share capital	200 000	120 000		80 000	
Retained earnings	120 000	72 000		48 000	
	320 000	192 000		128 000	
Equity represented by goodwill	-	-		-	
Consideration paid & NCI at fair value (240 000 – 204 000) x R3	320 000	192 000		128 000	
Since acquisition					
Retained earnings (336 115 – 120 000)	216 115		129 669	86 446	
Current year	329 220		279 837		
Profit for the year before rights issue (229 680(655 000 – 325 000 +185 000 – 196 000 – 89 320) x $^5/_{12}$)	95 700		57 420	38 280	
	631 815		187 089	252 726	
Rights issue – 30 May 2012					
Share capital	75 000	30 000		45 000	
Transfer to NCI (631 815(320 000 + 216 115 + 95 700) x $^{20}/_{100}$)		(126 363)		126 363	
Loss on rights issue		(96 363)			
	706 815	95 637	187 089	424 089	
Derecognise NCI	(424 089)			(424 089)	
	282 726	95 367	187 089	-	282 726
Fair value of remaining investment					260 000
Re-measurement adjustment					(22 726)
Profit for the year after rights issue (229 680(655 000 – 325 000 + 185 000 – 196 000 – 89 320) x $^7/_{12}$)	133 980		53 592		53 592
Mark-to-market reserve	8 140		3 256		3 256
Dividends paid	(22 400)		(8 960)		(8 960)
					307 888

SUGGESTED SOLUTION	1	(continued)

PART B

COTTON LTD GROUP
CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012

	R
Cash flows from operating activities	(155 581)
Cash receipts from customers (C1)	990 077
Cash paid to suppliers and employees (C2)	(1 012 189)
Net cash from operating activities	(22 545)
Investment income received (6 700(given) + 8 960(SP/LOCI) + 2 360(SP/LOCI))	18 020
Taxes paid (SP/LOCI)	(116 457)
Dividend paid (Given)	(34 600)

Calculations

C1 Cash receipts from customers

	R
Revenue (SP/LOCI)	1 124 917
Net outflow in trade receivables:	(134 840)
- Opening balance	175 000
- Subsidiary acquired	(16 000)
- Closing balance	(293 840)
	990 077

C2 Cash paid to suppliers and employees

	R
Cost of sales (SP/LOCI)	(625 417)
Net inflow in inventories	47 640
- Opening balance	352 000
- Subsidiary sold	(35 000)
- Closing balance	(269 360)
Decrease in trade and other payables	(4 000)
- Opening balance	(104 500)
- Subsidiary sold	5 500
- Closing balance	95 000
Other operating expenses - per statement of profit or loss and other comprehensive income (SP/LOCI)	(466 756)
Non-cash item: depreciation (given)	155 000
Non-cash item: loss on rights issue (SP/LOCI)	(119 089)
	(1 012 621)

NB: As part of a time management strategy do not prepare journals or an analysis which are superfluous to answering the question.

Comments:

1. Cotton Ltd is the parent, thus 100% of all income and expenses will be included in the consolidated SP/LOCI (any intragroup balances and transactions must be eliminated).

   Humbug Ltd is a subsidiary of Pearson Ltd for the first 5/12 months during the current year, thus 100% of all the income and expenses for the first 5 months will be included in the consolidated SP/LOCI (any intragroup balances and transactions must be eliminated).

   Humbug Ltd is an associate of Cotton Ltd for the last 7 months of the year. The “investment in associate” is disclosed as a single line item in the consolidated SFP. The “share of profit of associate” is disclosed as a single line item in the consolidated SP/LOCI for 7 of the 12 months (intragroup transactions must be eliminated, but only to the extent of the percentage interest in the associate – in this question there were no intragroup transactions between the parent and the associate).

   Pansy Ltd is a joint venture of Cotton Ltd. The “investment in joint venture” is disclosed as a single line item in the consolidated SFP. The “share of profit of joint venture” is disclosed as a single line item in the consolidated SP/LOCI (intragroup transactions must be eliminated, but only to the extent of the percentage interest in the joint venture).

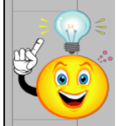
2. Goodwill/gain on bargain purchase does not need to be calculated as none of the investments were acquired in the current year. The gain or loss on rights issue is calculated by preparing the analysis (see C6).
   It is important to carry through the amount calculated for loss on rights issue to the “other expenses” line item in the consolidated SP/LOCI or else no marks will be awarded. If a loss on rights issue had been calculated, this amount would be dedited to the consolidated SP/LOCI as “other expenses”.

3. NCI is calculated by preparing the analysis (see C6). The amount transferred to the consolidated SP/LOCI is the amount calculated for the current year. The total of the NCI column in the analysis should not be disclosed in the SP/LOCI. The amount transferred is R38 320 in the NCI column of the analysis. It is important to carry through the amount calculated for NCI to the consolidated SP/LOCI or else no marks will be awarded.

   The “share of profit of associate” is calculated by preparing the analysis (see C6). The profit for the period is the amount which is carried through to the consolidated SP/LOCI and disclosed as “share of profit of associate”. (Remember to calculate 40% of the profit as Humbug Ltd is an associate for the last 7 months of the current year). The following calculation can also be used:

	R
Profit for the year (655 000 – 325 000 +185 000 – 196 000 – 89 320) x $^{7}/_{12}$ x 40%)	53 592
	53 592

   The NCI that is disclosed in the consolidated SP/LOCI is the NCI in the profit for the current year. Remember in this case, Humbug Ltd is an associate of Cotton Ltd, thus Cotton Ltd’s portion of the share of profit of associate of Humbug Ltd will be included in the calculation of profit for the period. This amount can be calculated using the analysis (see C6) or by preparing journals.



4. The “share of profit of joint venture” is calculated by an calculation or by preparing an analysis. The profit for the period is the amount which is carried through to the consolidated SP/LOCI and disclosed as “share of profit of joint venture”. (Remember to calculate 20% of the profit as Pansy Ltd is a joint venture and eliminate any intragroup profit in unrealised PPE). The following calculation can also be used:

	R
Profit for the year	44 208
(221 040(522 000 – 275 000 + 120 000 – 60 000 – 85 960) x 20%)	
Unrealised profit in PPE (30 000(120 000 – 90 000) x 20%)	(6 000)
Tax effect on unrealized profit on sale of PPE (6 000 x 28%)	1 680
Depreciation on unrealized profit (6 000/6 years x 9/12)	750
Tax effect on depreciation (750 x 28%)	210
	40 428

The NCI that is disclosed in the consolidated SP/LOCI is the NCI in the profit for the current year. Remember in this case, Pansy Ltd is a joint venture of Cotton Ltd, thus Cotton Ltd’s portion of the share of profit of joint venture of Pansy Ltd will be included in the calculation of profit for the period. This amount can simply be calculated without using an analysis or preparing journals.

5. NCI is calculated by preparing the analysis (see C6). The amount transferred to the consolidated SP/LOCI is the amount for the current year of the NCI column in the analysis. Journals can also be used. The amount transferred is NOT the total of the NCI columns. It is important to carry through the amount calculated for NCI to the consolidated SP/LOCI or else no marks will be awarded.

The profit for the year is split into profit attributable to owners of the parent and NCI. These two amounts must be carried through correctly from the calculation for marks to be awarded.

General

Time management is of great importance in any exam. Always remember the following:

- Read the required section first.
- Ensure that you prepare what is required.
- Never exceed the time allocated per question.
- Attempt each question in the paper; leaving out a question could result in you failing.
- Make notes as you read the given information in the question paper. This will assist you when you start preparing your answer.
- Try to score easy marks first, in other words do the easy sections first and then move on to the more difficult sections.
- If in doubt, always go back to basic principles.
- Show all calculations. Marks cannot be allocated if you do not show what an amount is made up of. For example, if trade receivables in the consolidated SFP are made up of three amounts, show the calculations and not only the total figure. Where more than one amount from the analysis or journals makes up an amount disclosed in the consolidated annual financial statements show the breakup of this amount. If the marker cannot see what the amount is made up of, marks cannot be allocated.
- Transfer amounts calculated to the consolidated annual financial statements (i.e. per the required section in the question). Marks will not be awarded for calculations if they are not transferred correctly.

You will note that all marks are allocated in the annual financial statements (as per the required section). Carryover marks are indicated in a block (see above) which will either be transferred from the analysis or journals (not both forms of calculations, as students are required to prepare either the journals or the analysis).

Please note:

If the question requires the preparation of journals then marks will only be allocated for the journals.

Mark plan	Marks
Consolidated SP/LOCI	33
Consolidated SCF	9
Total	42